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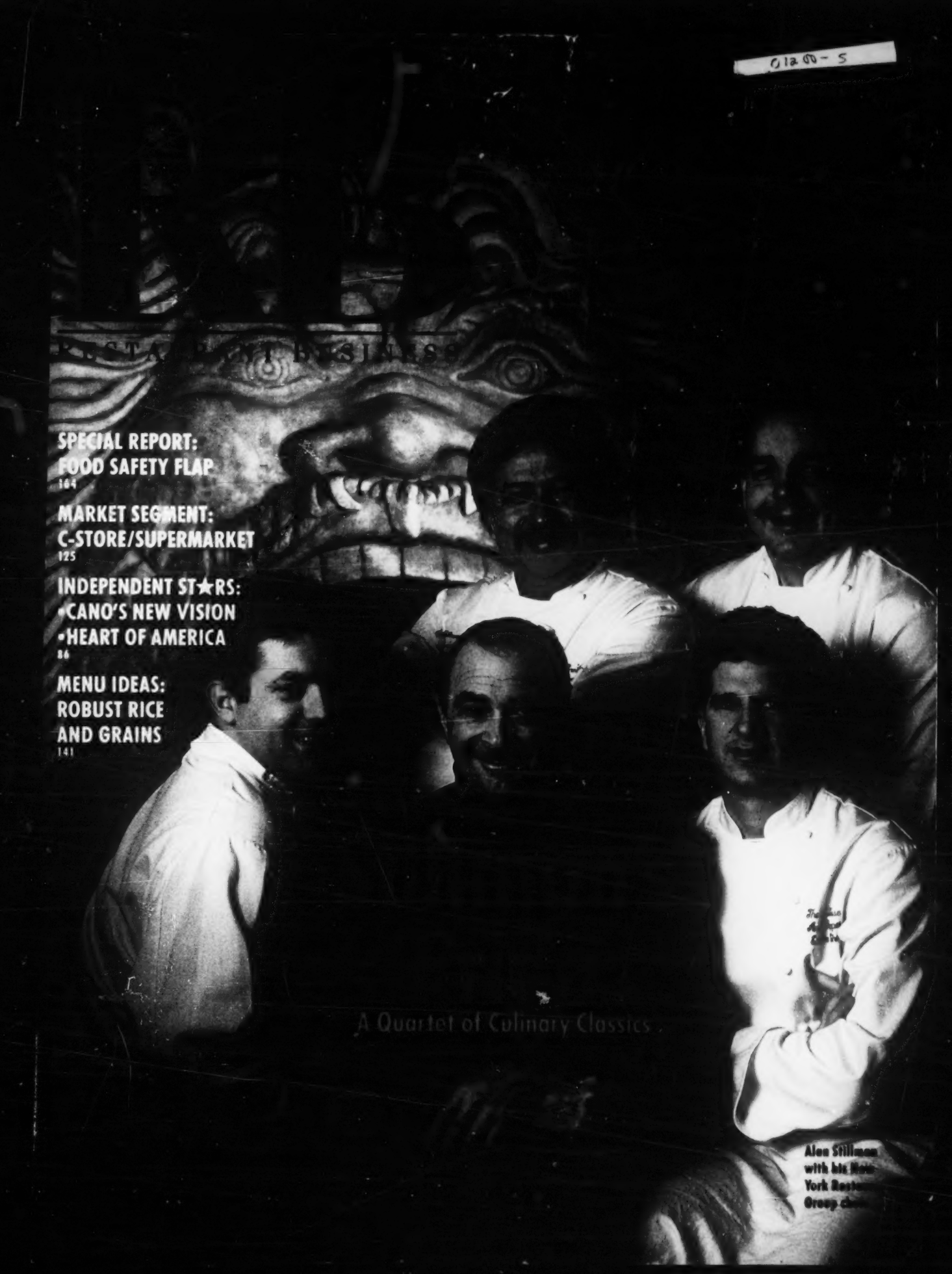


SPECIAL REPORT:
FOOD SAFETY FLAP
104

MARKET SEGMENT:
C-STORE/SUPERMARKET
125

INDEPENDENT ST★RS:
•CANO'S NEW VISION
•HEART OF AMERICA
86

MENU IDEAS:
ROBUST RICE
AND GRAINS
141

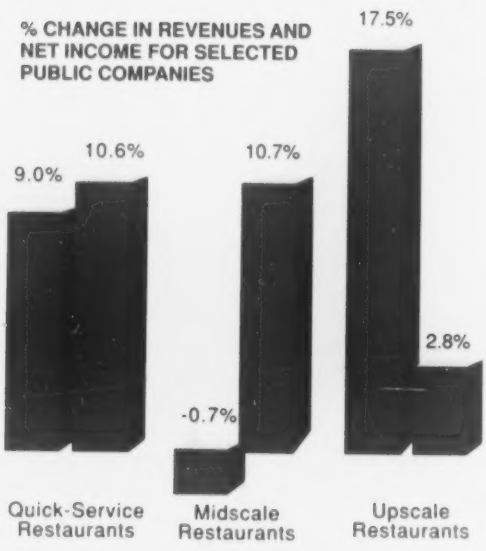
A Quartet of Culinary Classics

Alan Stillman with his New York Restaurant Group chefs

THE HARD FACTS SHAPING OUR INDUSTRY

BUSINESS BAROMETER

% CHANGE IN REVENUES AND NET INCOME FOR SELECTED PUBLIC COMPANIES



Midscale Revenue Down

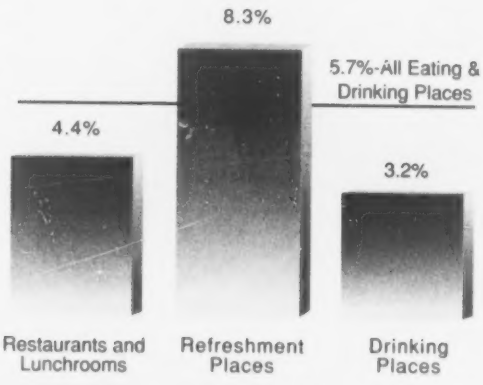
Revenue for the quick-service restaurant segment increased 10.6% in the latest quarter. Midscale rose 10.7%, and upscale operations increased 2.8%.

The net income for quick-service and upscale operations was up 9.0% and 2.8%, respectively. Midscale net income dropped 0.7%

The midscale operators who suffered the most were Shoney's (down 57%) and Pancho's Mexican Buffet (down 30%).

SOURCE: TECHNOMIC INC.

% CHANGE IN RETAIL SALES JAN.-SEPT., 1989 vs. YEAR-EARLIER PERIOD



EDP Sales Up 1.1%

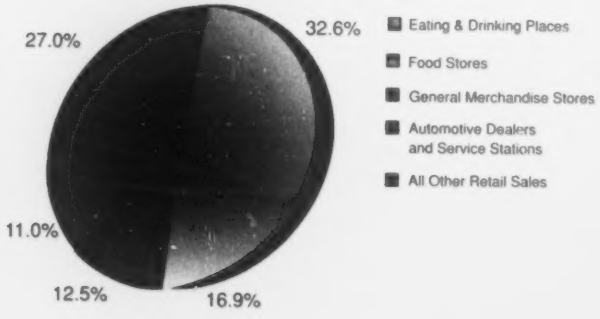
Fast-food establishments posted the highest nominal percent sales change (8.3%) of all Eating and Drinking Places for the nine months ending September 1989 versus the year-ago period.

On a real basis, overall Eating and Drinking Place sales grew at 1.1%.

Two categories, restaurants, lunchrooms, cafeterias, and drinking places, grew at only 4.4% and 3.2%, respectively, both less than the 5.7% overall Eating and Drinking Place average.

SOURCE: U.S. Department of Commerce, Bureau of the Census

SHARE OF TOTAL ADJUSTED RETAIL TRADE EMPLOYMENT OCT., 1989 (Preliminary)



TOTAL: 19.7 Million Employees

Employment Up Slightly

Eating and Drinking Place employment topped 6.4 milliom last October, according to the Bureau of Labor Statistics.

Eating and Drinking Places is the largest category of retail sales, representing nearly one-third of all retail sales employees. Other major categories are Food Stores (17% of total retail sales employees), General Merchandise Stores (13%), and Automotive Dealers and Service Stations (11.6%). All Other retail sales employees accounted for the remaining 20%.

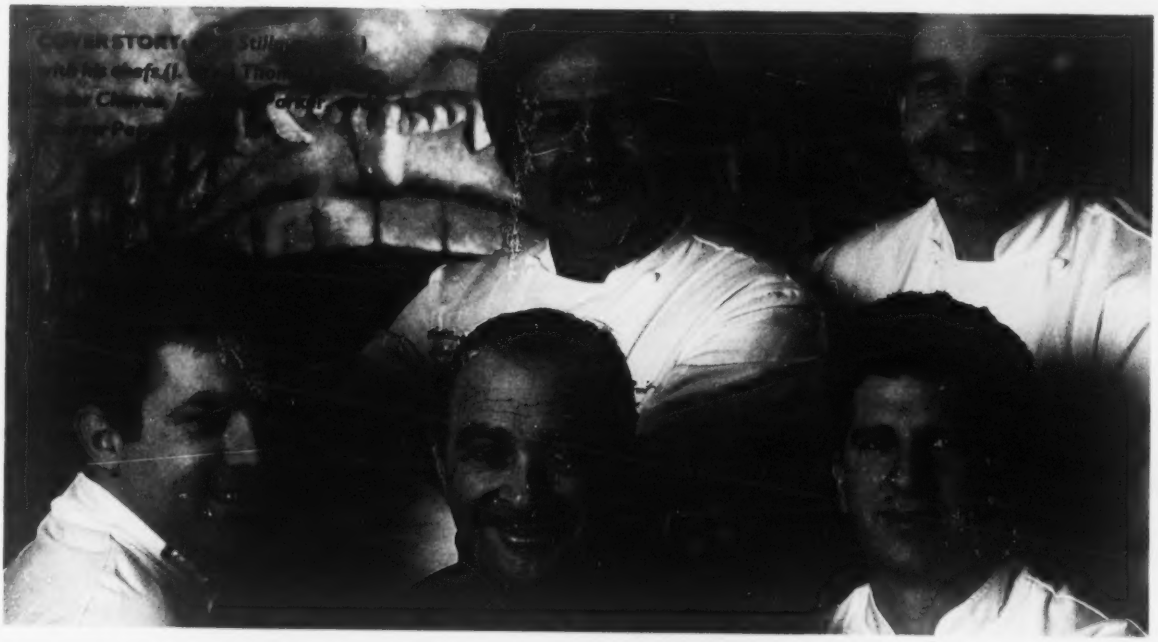
The Food Store segment leads the groups in terms of percent change in employees as compared with the year-earlier period, at 5.3%. Eating and Drinking Place employment rose 1.4% for the same period. Total retail sales employment grew 2.2%

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics

RESTAURANT BUSINESS

CONTENTS

FEBRUARY 10, 1990 VOL. 89 NO. 3



COVER STORY

STILLMAN NEW YORK RESTAURANT GROUP. Alan Stillman was the creator of T.G.I. Friday's, which inspired the casual-theme segment. Now he is the owner and operator of four high-grossing, white-tablecloth restaurants in New York City: Smith & Wollensky; the Post House; the Manhattan Ocean Club; and his newest restaurant, la Cité, a Parisian-style bistro/brasserie, which is expected to gross $9 million this year 109

FOOD AND BEVERAGE

MENU IDEAS RICE & GRAINS. Only a decade ago, foods like rice and beans were dismissed as inexpensive, starchy fillers—wheat bulgur and lentils were hardly known at all. Today, these items are the darlings of health gurus and food mavens alike..... 141

CHEF'S ART MAXALUNA. At this Boca Raton, FL, restaurant, executive chef Pierre Veau enhances lamb tartare with fresh basil, pine nuts, sun-dried tomatoes, and Reggiano cheese..... 146

PRO'S PANTRY LETTUCE. Salads today are replete with combinations of greens that fuse all kinds of flavors and textures. And now lettuce has emerged from the salad bowl as an ingredient in other dishes.... 149

PIECE MEAL MU-SHU. Operators in this country are updating their menus with one of the oldest dishes in Chinese cuisine, altering the original preparation by incorporating new flavors and tastes..... 153

DRAFTS, CARAFES WINES BY THE GLASS. Skillful merchandising of premium wines by the glass provides a valuable boost to the bottom line. Included are case histories of two wine destinations 159

FEATURES

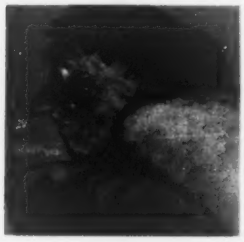
INDEPENDENT STARS VISION RESTAURANTS. Two veteran restaurateurs, Larry Cano and Fred LeFranc—both formerly with El Torito—are expanding with three innovative Mexican concepts 86

INDEPENDENT STARS HEART OF AMERICA. Mike Whalen's restaurant group—comprised of the farm-inspired Iowa Machine Shed, the casual-dining Iowa Trucking Company, the family-oriented Gramma's Kitchen, and a franchised Comfort Inn motel—has grown into a $7 million company..... 96

Cover photograph by Bard Martin

Published 18 times a year by Restaurant Business Magazine, 633 Third Ave., New York, N.Y. 10017. Vol. 89 No. 3. Second Class Postage paid at New York, N.Y. and additional office (ISSN 0097-8043). Postmaster please send address changes to Restaurant Business, P.O. Box 5309, Grand Central Station, New York, N.Y. 10017.

OPERATOR COMMITMENT



HUNGER RELIEF. There are many programs and other ways that restaurateurs can help relieve the pressing problem of hunger—so why are only 5% of the nation's restaurants involved? Find out how you can help the hungry 103

MARKET REPORT **C-STORES/SUPERMARKETS.** The foodservice industry faces a new source of competition as food retailers aggressively contend for share of the meals at home market 125

INDUSTRY ISSUE **FOOD SAFETY FLAP.** Controversial issues such as pesticides, antibiotics and growth hormones, microbial pathogens, and environmental toxins are currently provoking a reassessment of risks and benefits surrounding food safety..... 164

COLUMNS AND DEPARTMENTS

BUSINESS BAROMETER 2

LETTERS TO THE EDITOR 9

RESTAURANT OPENINGS 16

INSIGHTS. Industry News 22

TRADE QUOTES. Stock Market Reports 50

CALENDAR 56

MENU PLANNER'S GUIDE 58

HUMAN RESOURCES. 82

COMPUTER LINK. Guest Checks 78

EQUIPMENT I.Q. Ranges 170

BUYER'S CIRCLE. Noteworthy Equipment 174

CLASSIFIED ADVERTISEMENTS 189

LATELINE. Last-minute Newsbreaks 192

INDEX 196

READER COMMENT CARD 197

UPCOMING INDUSTRY EVENT

The second annual **CENTER-OF-PLATE** Foodservice Conference will be held in Chicago April 2 to 4. *The C-O-P Conference is sponsored by Restaurant Business magazine and American Meat Institute (AMI).* For information, contact Nancy Nugent, AMI, PO Box 3556, Washington, DC 20007; 703-841-2400.

IN THE NEXT ISSUE

COVER STORY

MORRISON'S CUSTOM MANAGEMENT

This diverse foodservice management company, with 858 clients, is on the leading edge of where contract catering companies are going in the '90s. Morrison's has more than doubled its revenues in the last three years. Morrison's is expanding aggressively in three key ways: acquisition, a partnership with McDonald's, and diversification beyond its core foodservice.

MARKET SEGMENT REPORT

BREAKFAST

Although growth has slowed as more players have entered into the fight for the breakfast daypart, there's still ample opportunity. At breakfast, unlike lunch and dinner, consumers want their morning meal fast and easy; convenience and portability are important factors.

MENU IDEAS

SEAFOOD

This year, we focus on bargain fish, such as Petrale sole, rockfish, and pollock.

MENU IDEAS:
Robust Rice & Grains, page 141.

— ATTENTION —

FOOD CHOPPER/GRINDER USERS!!

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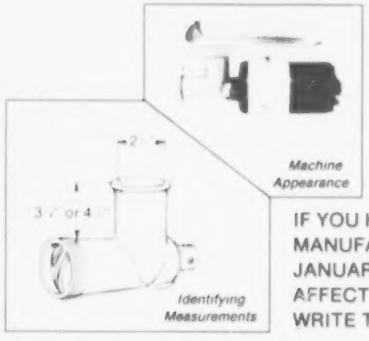

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RESTAURANT BUSINESS Magazine (formerly FAST FOOD) (ISSN 0097-8043) is published 18 times a year by Bill Communications, Inc., 633 Third Ave., New York, NY 10017. Telephone: 212-986-4800.

Copyright © 1990 by Bill Communications, Inc. All rights reserved. Subscriptions in the U.S., $79; foreign and Canada, $114; air mail, $212. Single copies in the U.S. and Canada, $5. Second class postage paid at New York, NY and at additional offices. Postmaster: Send address corrections to Restaurant Business, Attention: Roseanne Walsh, Circ. Dept., 633 Third Avenue, New York, NY 10017-6743.

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CONVENIENCE STORE SUPERMARKET

Food retailers may be the greatest threat to foodservice.

By James Scarpa

IN THE 1990s AND BEYOND, THE foodservice industry will face a new source of competition—as food retailers continue to serve prepared foods. Supermarkets and convenience stores are aggressively contending for share of the expanding meals at home market.

Some retailers foresee supermarkets and grocery stores becoming the preferred choice for "fresh prepared foods," the term for foods intended for home consumption that are sold hot and ready to eat, or chilled and microwavable. This is an ominous vision for the foodservice industry, which in recent years has counted on off-premise business to help shore up soft sales and traffic trends in on-premise dining.

IMPULSIVE DIVERSION. Convenience stores seek to divert traffic away from fast-food restaurants for quick take-out meals and impulse snacks in combination with 24-hour, one-stop shopping. However, the c-store industry's first order of business is to cure its sales and profit slump. The remedy, according to some c-store chain executives, is to attract a higher demographic profile with retooled merchandising approaches and better quality foods and goods.

In short, there's an aggressive new mindset in the food retailing world. "We can put out as good a quality food as the fast feeders, if not better," says general manager Louis Katopodis of Houston's Fiesta Mart supermarket chain.

Prepared foods is a business that grosses more than $2.4 billion per year. Sales of prepared food in supermarkets for off-premise consumption have had year-to-year increases from 1987 through 1989 of 112%, 51%, and 11%, respectively, according to CREST, a service of Park Ridge, IL-based NPD Research. The rate of increase has slowed as a consequence of rapid acceleration from a relatively small base, says CREST. But the trend remains growing and viable.

THE ATTRACTION. The following statistics from *Supermarket Business* magazine illustrate why prepared foods are attractive to retailers. Prepared foods have a mean gross margin of 53.4%, one of the highest in grocery stores. They account for 2.3% of total store sales and 5.2% of total store profits, an attractive sales-to-profit ratio.

These figures have encouraged thousands of retailers to implement prepared foods programs. In the magazine's survey of 17,000 supermarkets that sell prepared foods, the leading modes were salad bars (in 56% of stores), soup bars (49%), fresh pasta (47%), and hot pizza (46%).

GLIMPSE OF THE FUTURE. For a glimpse of what the future may hold in food retailing, consider the fresh prepared foods program of the Milliston Commons supermarket in Millis, MA, a venture of the eight-store Needham, MA-based Roche Bros. chain.

Milliston Commons features a Food Court described as "a street of food shops" by deli director Paul McGillivray.

continued on page 126

The Larry's Markets chain sells $500,000 worth of prepared food per week.

CONVENIENCE STORE
SUPERMARKET

Its fresh prepared foods stations comprise the Rotisserie, which sells fried and roasted chicken and barbecued ribs; Piece Meal, for single-serving portions of soups, entrees, and vegetables; a pizza shop; a dessert bar; plus steamtable service of items such as roast turkey.

The Food Court's weekly sales average $16,000, or 4% of total store sales, more than twice the volume of the delis in other Roche Bros. stores not equipped with food courts, says McGillivray.

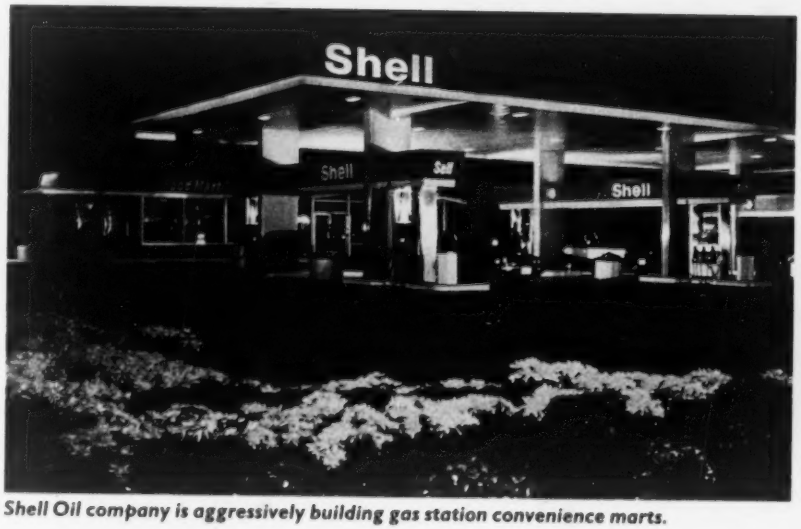
The design features a separate entrance to the Food Court apart from the store's main entrance, saving customers a hike across the 40,000-sq.-ft. store. Two separate cashier stations allow take-out food buyers to check out unimpeded by grocery shopper traffic.

To save labor, a majority of the cooking is done in the company commissary. It uses a blast chiller to cool foods to 40° F. before they are trucked to the store. Much of the prepared food is packaged in single portions and merchandised from self-service, reach-in cases. This enables a single employee to maintain six food stations, says McGillivray.

Decor elements of black faux marble, blond wood, and suspended stained glass panels create a comfortable atmosphere. The 50-seat dining area is patronized primarily at lunch, an occasion during which 75% of business is eat-in. At dinner hour, only 10% of business is eat-in.

"BEST RESTAURANT"? The Grand Union Food Center in Kingston, NY, makes no bones about its mission. Point-of-sale materials tout it as "the best take-out restaurant in town." A venture of the 305-store Grand Union supermarket chain, based in Wayne, NJ, the store devotes a third of its 64,000-sq.-ft. space to fresh prepared foods, including nearly 200 ft. of display cases. Food court offerings include popular Italian, Oriental, and Mexican dishes; it also sells familiar fare such as meatloaf, ribs, roasted chicken, freshly baked goods, and cooked seafood. Most of the big-batch cooking is done in Grand Union's new commissary.

In Seattle, the six-unit Larry's Markets chain is at the forefront of fresh prepared foods. Customers take home $500,000 worth per week, or 18% of total store sales, three times the industry average. Larry's is consolidating much of its food production from store kitchens into a commissary to achieve economies of scale and consistency.



Shell Oil company is aggressively building gas station convenience marts.

Convenience stores are diverting customer traffic away from fast-food restaurants.

PROGRESSIVE. Another example of progressive ideas in prepared foods can be seen in the recently opened supermarket in Greece, NY, owned by the privately held, 42-unit Rochester-based Wegmans chain.

The 100,000-sq.-ft. Wegmans in Greece greets customers with the Wokery Chinese food kiosk. Cooks stir fry dishes to order for eating in-store or for take-out. There's an array of fruit and vegetables, a pizza shop, and a bakery.

Sales of fresh prepared foods contribute $100,000 per week to the incredible $100 million annual total volume of Stew Leonard's in Norwalk, CT, a single dairy store that also sells meat and groceries. The store began its take-out program five years ago with a salad bar. It has since added self-serve steam tables that offer Oriental dishes; Italian specialties; soups; and plain steamed vegetables for the diet-conscious. It promotes take-out dinners of turkey with all the trimmings for $2.49 per pound under the banner, "It's Thanksgiving Every Day at Stew Leonard's."

AROUND THE COUNTRY. There's additional evidence of fresh prepared foods activity in markets around the country. Houston-based Fiesta Mart, a 19-store chain, is testing fresh microwavable entrees, pasta sauces, Chinese dishes, and side dishes. Its deli department sells slabs of ribs, whole briskets, and whole roasted chickens. The 20-unit Ukrop's supermarket chain based in Richmond,

continued on page 130

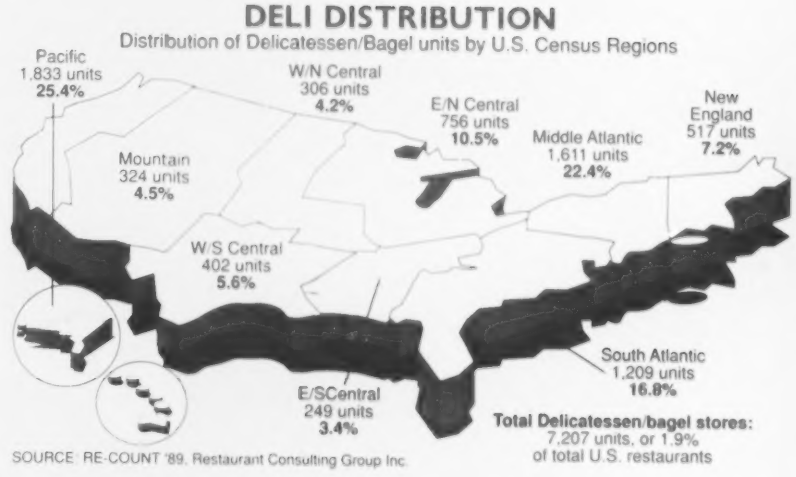
CONVENIENCE STORE
SUPERMARKET

VA, recently opened a new store featuring a Grill and Wok, and sells regional food specialties. In Los Angeles, Von's supermarkets have incorporated a Chinese fast-food concept into one store.

"We're moving into an area that's very competitive, with other supermarkets, convenience stores, and even drugstores and department stores offering some kind of foodservice," says Mary Ellen Burris, director of consumer affairs of Wegmans supermarkets, who declined to elaborate on her company's programs.

INSULAR. In evidence is the insular culture of the food retailing industry, in the opinion of Howard Solganik, a Dayton, OH-based supermarket food consultant. "For a long time, the culture of food retailing has made it difficult to accept new ideas and new people from outside the industry," he says.

However, the culture is changing. Realizing the profit potential, retailers are seeking foodservice talent to improve their deli sections. Apparently, some chefs and cooks are happy to flee the long hours and pressure of the foodservice industry. According to Solganik, a position in supermarket food production offers fewer hours, little or no night, weekend, and holiday work, and often, better salaries and benefit programs.



The freshly prepared foods business is grossing more than $2.4 billion per year.

AM/PM Mini Marts offer hot dogs, pizza, chicken, burritos, and more.

EXPERTISE. The influx of foodservice expertise should improve supermarket take-out food. And, it is a mistake to underestimate the potential competitiveness of supermarkets, especially in view of the industry's financial muscle. Large, high-volume supermarkets may achieve weekly grosses of $500,000, $750,000—as much as $1 million. A 20-store chain, small by industry standards, may be a $250 million to $300 million operation. The implication is clear: Should the supermarket industry marshal its resources in the take-out market, the impact on restaurants could be severe.

Customer preference for familiar homestyle foods over the exotic was a recurring theme mentioned by prepared foods retailers. "Take-out food customers want meatloaf, not squid-ink pasta,"

continued on page 132

CONVENIENCE STORE
SUPERMARKET

says consultant Solganik.

Nutrition is an issue in supermarket prepared food purchases to a certain extent, but retailers agree that taste is the consumer's deciding factor. Still, retailers such as Schnuck's Supermarkets, a 57-unit chain based in St. Louis, are rewriting recipes to use less fat and sodium. In addition, Schnuck's offers a line of 300-calorie entrees, according to James Duchek, vice president of specialty foods.

It's evidently not difficult to sell consumers on the taste of freshly prepared foods. But will they bite on items priced significantly higher than deli standards such as sliced liverwurst and potato salad? "The consumer is not yet convinced that he should pay $5 or $6 for an entree, even though it's top quality and freshly made," says Louis Katopodis of Houston's Fiesta Mart. "But consider the prices of frozen entrees, which are up to $4 and rising."

SUPER RESTAURANTS. Predating the emergence of food courts and elaborate prepared foods departments, some supermarkets have incorporated their own restaurant concepts. According to *Supermarket Business*, some 2,000 supermarkets have in-store dining, predominantly snack bars patronized mostly at lunch. Of these, 270 are full-service restaurants.

One of the best known supermarket restaurant operators is Byerly's, the Edina, MN-based supermarket chain, which since 1968 has been operating full-service, 24-hour restaurants ranging from 160 to 225 seats. Byerly's combined restaurant and prepared foods sales account for about a quarter of its total sales. The company says it wouldn't consider building a new store without a sit-down restaurant. "Foodservice—both restaurant and deli take-out—is the fastest-growing part of our business," says director of retail operations Dale Riley.

Schnuck's Supermarkets began by operating lunch counters in its stores 30 years ago, says Duchek. Today, the supermarket chain has 17 store restaurants, and recently opened a freestanding one. They range in size from 120 to 230 seats, some with banquet facilities.

C-store segment-leader 7-Eleven has strong foodservice sales.

Supermarkets have discovered that prepared foods have a mean gross margin of 53.4%.

C-STORES SLOW GROWTH. In the convenience store industry, growth is sagging. Pre-tax profit percentage is down from 3.1% in 1984 to 1.9% in 1988. Debt-laden industry leaders 7-Eleven and Circle K are braking the vigorous growth they recently enjoyed.

C-stores are suffering from stiffening competition from grocery stores and supermarkets that have added take-out foods and sundry consumer items. In addition, research reveals that supermarkets enjoy a better reputation among consumers for lower prices and higher quality food than c-stores.

On another front, c-stores are buffeted by competition from oil companies such as ARCO, Shell, and Amoco, which are aggressively building gas station convenience marts in advantageous street-front locations all over the country.

SQUEEZED. In addition, some c-stores that implemented foodservice programs requiring kitchen equipment installation for the promise of higher margins are squeezed by the resultant capital and labor costs.

But foodservice broadens c-stores' appeal. Research indicates that consumers consider c-stores the preferred source for items such as hot coffee, tea, and chocolate in single-serving containers, fountain drinks, and baked goods, according to the Alexandria, VA-based National Association of Convenience Stores (NACS).

WHAT THEY DO WELL. The experience of successful operators indicates a market for these foods and other types that c-stores can do well—simple take-out meals and impulse snacks. Examples are the recent deals offered by Jr. Food

continued on page 134

CONVENIENCE STORE SUPERMARKET

Stores, a Bowling Green, KY-based c-store chain: a sausage biscuit and a free cup of coffee, priced at $1.29; and a hot dog with a free 12-oz. fountain drink, priced at 89¢.

Foodservice is attractive to c-store operators because it provides higher margins and profits per square foot than other items, says a NACS spokesperson. However, operators generally have not taken full advantage of their foodservice opportunities. While c-store food may meet the consumer's expectations for convenience and speed of service, it lags behind in quality. "Consumers have been spoiled by the high performance of fast-food restaurants," says senior consultant Greg Volsko of C-Store Concepts in Plano, TX.

QUALITY REQUIRED. Poor products, rather than supermarket and gas station competition, are the real causes of c-stores' poor performance, according to V.H. Van Horn, president and CEO of Houston-based National Convenience Stores (NCS), parent of the 1,100-unit Stop & Go chain.

Other industry voices indict c-store food. "People in the marketplace don't perceive it (c-store food) as contemporary," says John Stigmon, Circle K's national product manager for foodservice. Director of advertising Gene Clark of Jackson, MS-based Jr. Food Marts (not to be confused with Jr. Food Stores of Kentucky) blames "pre-fab foods that are long on shelf life but short on quality."

LOCAL RESPONSE. Van Horn's solution is to change the merchandise in Stop & Go stores to correspond to local demographics. Stores in upscale neighborhoods will stock gourmet items; stores in ethnic neighborhoods will reflect the prevailing cultural values and decor. NCS says it will back the new strategy with $12 million in advertising over the fiscal year, up from last year's $10 million. Preliminary results of this move at press time indicate sales increases of 4% to 5% per week.

In addition to deli/take-out, some supermarkets now even have in-store restaurants.

The Byerly's supermarket chain has been operating restaurants since 1968.

Like Stop & Go, Phoenix-based Circle K, the industry's number-two player with 4,685 units, is contemplating a new marketing thrust to appeal to different constituencies. "We feel we can appeal to other groups than the traditional blue-collar customer of the past," says Stigmon. "We'd like to skew more toward office workers and white-collar workers."

SETTING THE PACE. Circle K and 7-Eleven, the industry's unit leader with 7,000 stores, have set the pace in c-store foodservice with programs such as donut merchandising joint ventures with Dunkin' Donuts and Winchell's Donuts. But lately, the big players have been wrestling with the financial consequences of their aggressive expansion, acquisition, and leveraged buy out activity.

7-Eleven's parent, Dallas-based Southland Corp., insists that new products and new marketing will not be hindered, despite conceding that a recapitalization may be in order to offset a cash flow problem resulting from its $4.9 billion LBO in 1987. New flavored coffees are in test, and ongoing promotions are planned for its recently rolled out breakfast sausage sandwich and its popular hot dogs and deli sandwiches.

Circle K's worry is $1 billion of long-term debt rolled up in its aggressive acquisitions of the past decade. To pare the debt, Circle K will refrain from buying or building stores in 1990, and will sell 25 stores in Hawaii and 120 in New England.

REGIONAL CHAINS. C-stores traditionally have thrived in small niches in which other larger competitors find it difficult to profitably operate. It is not surprising then to see much of the leadership in foodservice coming from the ranks of the smaller regional chains.

A regional player proficient in foodservice is Jackson, MS-based Jr. Food Marts (JFM), a 460-unit chain in the South and Midwest. It entered the foodservice business 15 years ago with its signature Creole Fried Chicken. In addition, JFM has implemented a successful

continued on page 138

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CONVENIENCE STORE SUPERMARKET

Some retailers have found that food and labor costs are the downside to offering foodservice.

in-store bakery and deli and is experimenting with pizza by the slice.

HEAT AND SERVE. JFM's foodservice programs are successful, but other chains that have gone into scratch-prepared foods have suffered operational problems, cost overruns, and training and turnover problems. For those reasons, scratch-cooking approaches are being used less commonly than heat-and-serve products. "A number of chains are downscaling and simplifying their foodservice," comments consultant Greg Volsko of C-Store Concepts.

Traveling another avenue of foodservice is White Hen Pantry, an Elmhurst, IL-based chain of 375 stores in the Midwest and 65 in New England. It is experimenting with "fresh" entrees for take-out, according to director of merchandising services Tom Romanello. The "fresh" items are fully-cooked, never-frozen entrees made by a major food manufacturer. In addition, White Hen Pantry is expanding its fresh-ground coffee program with new flavors. Promotions typically co-merchandise a cup of coffee with a bran muffin or a newspaper for a discounted price.

On the sandwich front, last year White Hen Pantry cross-promoted its Double Stuffer submarine sandwich with name-brand cola and corn chips, $2.99, and a souvenir soft drink cup.

OIL SLICK. While convenience stores try to regroup, oil companies are seizing an opportunity. They are incorporating

continued on page 139

scaled down c-stores into gas stations at a rapid pace, recognizing it as a good source of incremental sales and profits. To their advantage, gas station convenience marts are driven by well-capitalized corporations capable of making big capital expenditures, and they enjoy street-front and highway locations all over America. As corporate communications manager Melissa Scheitler of Crown Center Petroleum puts it, "We want to add as many additional profit centers as possible."

LIMITED MENU. Typical are the 300 Food Marts that Houston-based Shell Oil Co. runs among its nearly 10,000 gas stations. A Shell Food Mart ranges in size from 800 sq. ft. to 1,500 sq. ft. and sells packaged snacks, soft drinks, sandwiches, and a limited line of groceries. A few make fresh sandwiches on site.

Offering more extensive foodservice is Los Angeles-based ARCO's AM/PM Mini Marts concept, which operates in 700 of its 1,600 stations nationwide. ARCO offers gasoline customers a menu of hot dogs, a 20-oz. cup of coffee, pizza slices, quarter-pound cheeseburgers, plus egg rolls, nachos, french fries, burritos, ice cream, and fried chicken.

TESTING. A test of fried chicken is under way in some Zippy Mart and Fast Fare convenience shops operated by Baltimore-based Crown Center Petroleum, a 730-unit chain of self-serve gas stations in the Southeast. They also peddle hot dogs, pizza, danish pastry, sausage biscuits, and sandwiches, some prepared in a company commissary.

Chicago-based Amoco has 1,000 Food Shops among its 12,000 stations in 30 states. They sell mainly "fast grab impulse items," such as candy bars, granola bars, beer, and soda, says a spokesperson. To a lesser extent, they offer microwavable chili, burritos, soups, sandwiches, burgers, and hot dogs.

Many of these oil company convenience shops are conversions of conventional gas station repair bays. "The old two-bay gas station is going the way of the dodo bird," says C-Store Concepts' Greg Volsko. "The operator makes more money selling chips and soda than oil changes and repairs." ■

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